

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name BATA	County Grand Traverse
Audit Date 9/30/05	Opinion Date 12/21/05	Date Accountant Report Submitted to State: 3/29/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

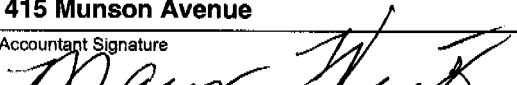
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) Dennis, Gartland & Niergarth			
Street Address 415 Munson Avenue	City Traverse City	State MI	ZIP 49686
Accountant Signature 		Date 3/29/06	

BATA

**FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

September 30, 2005 and 2004

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Authority Board
BATA

We have audited the accompanying financial statements of **BATA** as of and for the years ended September 30, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of BATA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material aspects, the respective financial position of BATA as of September 30, 2005 and 2004, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

BATA has not presented a management discussion and analysis that the Governmental Accounting Standards Board has determined necessary to supplement, although not required to be part of, the basic financial statements.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information on pages 16 - 27 and the Schedule of Expenditures of Federal and State Awards on page 29, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the financial statements of BATA. Such information has been subjected to the auditing procedures applied during the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2005 on our consideration of BATA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As required by the Michigan Department of Transportation, schedules of mileage, vehicle hours and number of passengers transported for the year ended September 30, 2005 and 2004 appear on pages 26 and 27. This supplemental information was not audited by us and, accordingly, we do not express an opinion on it. However, we have reviewed the compilation methods for mileage and passenger data and found them reliable.

Dennis, Gartland & Niergarth

December 21, 2005, Except for Note L,
as to which the date is March 8, 2006.

BATA

BALANCE SHEETS - PROPRIETARY FUND

September 30,

	<u>2005</u>	<u>2004</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 195,185	\$ 182,914
Accounts receivable less allowance for bad debts of \$25,000 and \$- for 2005 and 2004, respectively	76,438	125,794
Grants receivable		
State	158,255	309,563
Federal	111,665	1,108,300
Prepaid insurance	<u>40,838</u>	<u>-</u>
Total current assets	582,381	1,726,571
PROPERTY, VEHICLES AND EQUIPMENT, net	<u>3,290,244</u>	<u>3,220,143</u>
Total assets	<u>\$ 3,872,625</u>	<u>\$ 4,946,714</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Notes payable to bank	\$ 102,548	\$ 1,350,586
Accounts payable	146,707	230,185
Accrued expenses	223,324	164,354
Accrued insurance	70,122	97,027
Deferred income	810	1,810
Due to State	<u>164,163</u>	<u>-</u>
Total current liabilities	707,674	1,843,962
LONG-TERM DEBT - Accrued insurance	<u>61,008</u>	<u>158,034</u>
Total liabilities	<u>768,682</u>	<u>2,001,996</u>
NET ASSETS		
Invested in capital assets, net of related debt	3,290,244	3,220,143
Restricted for new services	747,675	365,581
Unrestricted	<u>(933,976)</u>	<u>(641,006)</u>
Total net assets	<u>3,103,943</u>	<u>2,944,718</u>
Total liabilities and net assets	<u>\$ 3,872,625</u>	<u>\$ 4,946,714</u>

BATA

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUND

For the years ended September 30,

	<u>2005</u>	<u>2004</u>
Operating revenues (Schedule 1)	\$ 498,267	\$ 561,687
Operating expenses (Schedule 2)	<u>4,829,856</u>	<u>4,992,931</u>
Total operating loss	<u>(4,331,589)</u>	<u>(4,431,244)</u>
Non-operating revenues (Schedule 3)	4,185,468	4,179,133
Non-operating expenses (Schedule 4)	<u>35,850</u>	<u>47,262</u>
Total non-operating income	<u>4,149,618</u>	<u>4,131,871</u>
Net loss before capital contributions	(181,971)	(299,373)
Capital contributions - grants (Schedule 7)	<u>341,196</u>	<u>2,057,035</u>
INCREASE IN NET ASSETS	159,225	1,757,662
Net assets, beginning of year	<u>2,944,718</u>	<u>1,187,056</u>
Net assets, end of year	<u>\$ 3,103,943</u>	<u>\$ 2,944,718</u>

BATA

STATEMENTS OF CASH FLOWS - PROPRIETARY FUND

For the years ended September 30,

	<u>2005</u>	<u>2004</u>
Operating activities		
Cash received from customers	\$ 546,623	\$ 608,013
Cash payments to suppliers and employers	<u>(4,383,552)</u>	<u>(4,301,551)</u>
Net cash used by operating activities	<u>(3,836,929)</u>	<u>(3,693,538)</u>
Capital and related financing activities		
Federal capital grant	1,658,684	717,323
Acquisition of property and equipment	(445,568)	(987,303)
Repayment of debt	(1,248,038)	(99,414)
Interest paid	<u>(33,696)</u>	<u>(6,160)</u>
Net cash used by capital and related financing activities	<u>(68,618)</u>	<u>(375,554)</u>
Noncapital financing activities		
Federal, State, local grants and property taxes	3,875,096	4,032,416
Other non-operating revenues	78,572	66,054
Non-operating expenses paid	<u>(35,850)</u>	<u>(47,262)</u>
Net cash provided by noncapital financing activities	<u>3,917,818</u>	<u>4,051,208</u>
NET INCREASE (DECREASE) IN CASH	12,271	(17,884)
Balance of cash, beginning of year	<u>182,914</u>	<u>200,798</u>
Balance of cash, end of year	<u>\$ 195,185</u>	<u>\$ 182,914</u>
Schedules of non-cash investing/financing transactions		
Purchase of land financed with note payable	<u>\$ -</u>	<u>\$ 1,250,000</u>

BATA

NOTES TO FINANCIAL STATEMENTS

NOTE A - REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

The Bay Area Transportation Authority ("BATA") was created February 1, 1985, pursuant to the Urban Cooperation Act P.A. No. 7 of 1967 to provide public transportation to the general public in non-urbanized areas including the City of Traverse City, Leelanau County and the Grand Traverse County townships of Long Lake, Peninsula, Garfield, East Bay, Acme, Whitewater, Green Lake and Blair. As of July 17, 1997, the name of the corporation became BATA and is hereinafter referred to as "BATA." BATA, created under the new Articles of Incorporation, is a new and successor organization pursuant to the Public Transportation Authority Act of 1986 P.A. 196. Funding is provided by grants under Act 51 of Public Acts of 1951, as amended, and Section 18 of the Mass Transportation Act of 1964. On March 27, 1998, the BATA Board amended the Articles of Incorporation to provide for the membership to be Grand Traverse and Leelanau Counties and, at that time, the City of Traverse City and the townships resigned.

The accounting policies of BATA conform to generally accepted accounting principles as applicable to governmental units. The accounting and reporting framework and the more significant accounting principles and practices of BATA are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of BATA's financial activities for the fiscal year ended September 30, 2005.

The Financial Reporting Entity

BATA's financial statements include the accounts of all BATA operations. In evaluating BATA as a reporting entity, management has addressed all potential component units (traditionally separate reporting units) for which BATA may or may not be financially accountable and, as such, be includable within BATA's financial statements. In accordance with GASB Statement No. 14, BATA is financially accountable if it appoints a voting majority of an organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on BATA. Additionally, BATA is required to consider other organizations for which the nature and significance of their relationship with BATA are such that exclusion would cause BATA's financial statements to be misleading or incomplete.

Based on this criteria, management has not identified any potential component units requiring consideration for inclusion in BATA's financial statements.

Adoption of New Accounting Standards

During the fiscal year 2004, BATA partially adopted GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, issued June 1999; GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments Omnibus*, issued June 2001, and GASB Statement No. 38, *Certain Financial Statement Disclosures*, issued in 2001. These statements require BATA to prepare a Management's Discussion and Analysis, make some changes to the notes of the financial statements and change the presentation of net assets.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

BATA's proprietary fund applies all applicable Governmental Accounting Standards Board ("GASB") pronouncements as well as following all Financial Accounting Standards Board ("FASB") pronouncements issued through November 30, 1989 except for those that conflict with or contradict GASB pronouncements. BATA's reporting entity does not apply FASB pronouncements issued after November 30, 1989.

Enterprise Fund Accounting

BATA is accounted for as an enterprise fund. The enterprise fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheet. Their reported net assets is segregated into invested in capital assets, net of related debt, and restricted and unrestricted components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Cash

For purposes of the statement of cash flows, BATA considers cash on hand, demand deposits and short-term investments in investment pools and government money market funds with maturities of three months or less when purchased to be cash.

Fixed Assets and Depreciation

Property and equipment are stated at cost or fair market value at date of acquisition. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amount, are capitalized. A provision for depreciation has been established on a straight line basis using 5 to 20 year useful lives.

Restricted Assets

A portion of BATA's tax levy is restricted for the development and provision of new services. New services are first funded with State and Federal funding and subsequently with local tax revenues. Accordingly, a portion of net assets are restricted, representing unspent tax monies relative to new services.

NOTES TO FINANCIAL STATEMENTS - Continued

Except as noted above, when both restricted and unrestricted resources are available for use, it is BATA's policy to use restricted resources first, then unrestricted resources as needed.

Operating Revenues

BATA's operating revenues are tied to its primary purpose of providing public transportation to the general public in Grand Traverse/Leelanau Counties. Grants received to help finance operations are classified as non-operating revenues in accordance with GASB 34.

Grants

BATA receives two distinct types of grants from governmental agencies:

- Operating grants are used to fund BATA's day-to-day operations and to meet normal expenses of those operations.
- Capital grants are used for capital expenditures.

Property Taxes

Property taxes levied by BATA are collected by various municipalities and periodically remitted to BATA. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. After February 14, the bills become delinquent and penalties and interest may be assessed by the collecting entity. Property tax revenues are recognized when levied.

Property taxes uncollected after one year are written off. For the year ended September 30, 2005 and 2004, BATA levied .25 mills for operations and .10 mills for new services per \$1,000 of assessed valuation.

Compensated Absences

Vacation and sick pay are recorded as an expenditure at the time the benefit is earned by the employee, taking into consideration maximum contractual amounts.

Cost Allocation Plan

BATA has received approval of a cost allocation plan for Project Zero Grants.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual amounts could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE B - CASH

At September 30, 2005 and 2004, BATA's cash included the following:

	<u>2005</u>	<u>2004</u>
Cash on hand	\$ 220	\$ 220
Bank deposits	<u>194,965</u>	<u>182,694</u>
	<u>\$ 195,185</u>	<u>\$ 182,914</u>

Custodial Credit Risk - Deposits

In the event of a bank failure, BATA's bank deposits may not be returned. As of September 30, 2005, and 2004, \$142,575 and \$103,524, respectively, of BATA's bank deposits of \$242,575 and \$203,524, respectively, were exposed to custodial credit risk because they were uninsured and uncollateralized.

NOTE C - PROPERTY, VEHICLES AND EQUIPMENT

Major classes of property, vehicles and equipment consisted of the following:

	<u>September 30, 2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2005</u>
Shop equipment	\$ 111,642	\$ 2,669	\$ (1,400)	\$ 112,911
Operating equipment	548,653	7,046	-	555,699
Vehicles	2,986,486	302,607	(490,794)	2,798,299
Office equipment and furniture	225,560	43,859	-	269,419
Buildings	<u>1,068,694</u>	<u>11,191</u>	<u>-</u>	<u>1,079,885</u>
Total depreciable assets	4,941,035	367,372	(492,194)	4,816,213
Less accumulated depreciation	(3,215,680)	(375,467)	492,194	(3,098,953)
Construction-in-process	-	78,196	-	78,196
Land	<u>1,494,788</u>	<u>-</u>	<u>-</u>	<u>1,494,788</u>
Total capital assets, net	<u>\$ 3,220,143</u>	<u>\$ 70,101</u>	<u>\$ -</u>	<u>\$ 3,290,244</u>

Total depreciation expense for the years ended September 30, 2005 and 2004 was \$375,467 and \$302,530, respectively.

Substantially all fixed assets have been contributed by the State of Michigan. When fixed assets have lost their utility, the assets must either be returned to the State or proceeds from the sale thereof must be turned over to the State.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE D - NOTES PAYABLE TO BANK

	<u>2005</u>	<u>2004</u>
Note payable to a bank; payable in monthly installments of \$11,550; bearing interest at 0.25% below prime; maturity July 2006.	\$ 102,548	\$ -
Note payable to a bank; payable in monthly installments of \$11,550; bearing interest at 0.25% below prime; maturity June 2005.	-	100,586
Draw note payable to a bank; interest payable in monthly installments at .75% below prime; maturity May 2005. The loan was secured by specific property.	-	1,250,000
	<u>\$ 102,548</u>	<u>1,350,586</u>

BATA has entered into short-term borrowing arrangements with a bank in the amounts of \$200,000 for the years ended September 30, 2005 and 2004, due to the timing of tax collection receipts. The principal balance due was \$102,548 and \$100,586 at September 30, 2005 and 2004, respectively.

Interest expense for the years ended September 30, 2005 and 2004 was \$33,696 and \$6,160, respectively.

The annual requirement to amortize general obligation debt outstanding at September 30, 2005 is as follows:

<u>Year Ending, September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	<u>\$ 102,548</u>	<u>\$ 2,384</u>	<u>\$ 104,932</u>

NOTE E - OPERATING LEASES

BATA leases various vehicles and equipment under operating leases. Total rent expense for the years ended September 30, 2005 and 2004 was \$39,685 and \$30,589, respectively. Future minimum lease payments are as follows:

<u>Years Ending September 30,</u>	
2006	\$ 38,358
2007	28,140
2008	25,765
2009	<u>15,900</u>
	<u>\$ 108,163</u>

NOTE F - INSURANCE POOL

During the year ended September 30, 1988, BATA and 18 other transportation authorities formed the Michigan Transit Pool ("MTP"). There are two insurance programs offered by MTP. BATA participates in both the Direct Property Damage Program, which is a self-insured fund providing insurance coverage for physical damage and comprehensive losses to BATA's fleet of vehicles, and the Michigan Transit Pool Liability Trust Fund, providing general liability coverage. The Direct Property Damage Program provides for \$24.5 million excess above \$2.5 million retention per individual occurrence, whereas, the Liability Trust Fund provides for up to \$4 million of coverage per occurrence.

The Direct Property Damage Program directly allocates losses incurred by a member between \$2,000 (the amount of the per-occurrence deduction) and \$10,000 (the risk-shared threshold). Risk shared losses include losses above the \$10,000 not covered by excess reinsurance. Risk shared losses will be allocated between all members participating in the collision and primary comprehensive coverage program based upon a member's average book value, divided by total participating average book value, multiplied by the total amount of risk shared losses. The actual calculation of risk shared losses will extend beyond the fiscal year-end to encompass expenses incurred to close all claims for the policy period. In the event of excess losses, all pooled losses will first be paid out of initial deposits. Should losses exceed this amount, the contingency margin will be used to pay losses. In this event, all systems will be billed the amount necessary to replenish the contingency margin within thirty (30) days.

Each authority contributes to the Liability Trust Fund an annual premium which is actuarially determined based upon BATA's vehicle hours, vehicle miles and number of passengers for the preceding year. During the initial year of the pool, BATA also contributed to the contingency reserve of the pool, which was intended to be a one-time payment. Claims less than \$50,000 are deducted directly from the applicable authority's premium deposit. Claims over \$50,000 are paid out of a pool in which all authorities participate. Each authority is credited with interest earned on its premium deposit and is charged for its share of claims as well as administrative expenses. If a refund or additional premium is due to/from BATA, such adjustment will be made approximately six months after the pool's fiscal year-end of November 30.

During the the year ended September 30, 2004, BATA incurred a retrospective rate increase of \$291,079. During the year ended September 30, 2005, the liability was adjusted down by \$26,870. \$97,061 and \$36,018 of this liability was paid during the fiscal years 2005 and 2004, respectively. The remaining liability of \$131,130 is reported as a payable and is due as follows:

December 1, 2005	\$ 70,122
December 1, 2006	<u>61,008</u>
	<u>\$ 131,130</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE G - 401(k) RETIREMENT PLAN

BATA is the plan administrator of the Bay Area Transportation Authority Employee Deferred Compensation Plan, (the "Plan"), a 401(k) retirement plan. Total covered payroll for the current year was \$2,534,051. Employees are required to contribute 1.5% of gross payroll at a minimum and are eligible for an additional employer contribution equal to 7.0% of contributing employees' gross payroll. Employees are vested 100% immediately in all contributions made to the Plan. Employer contributions for the years ended September 30, 2005, 2004 and 2003 amounted to \$178,169, \$172,189 and \$153,196, respectively. Participant contributions for the years ended September 30, 2005, 2004 and 2003 were approximately \$159,000, \$138,000 and \$124,000, respectively.

The Plan assets are not invested in any securities of BATA nor are there any loans from the Plan to BATA.

NOTE H - SELF-INSURED HEALTH BENEFITS

BATA self-insures certain dental benefits for its employees which, in the aggregate, has minimal financial exposure. The maximum expense is \$800 per year, per employee.

NOTE I - CONTINGENT LIABILITIES

BATA participates in a number of State and Federally assisted grant programs which are subject to program compliance audits by the grantors. Accordingly, BATA's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenses which may be disallowed by the granting agencies cannot be determined at this time, although BATA expects such amounts, if any, to be immaterial.

NOTE J - STATEMENT OF CASH FLOWS

Reconciliation of operating loss to net cash used by operating activities:

	<u>2005</u>	<u>2004</u>
Operating loss	\$ (4,331,589)	\$ (4,431,244)
Add depreciation expense not requiring outlay of cash	375,467	302,530
Add contributed services not requiring outlay of cash	62,255	60,444
Add interest paid	33,696	6,160
Change in receivables	49,356	45,966
Change in prepaid expenses	(40,838)	5,473
Change in accounts payable	(207,409)	310,689
Change in accrued expenses	58,970	6,084
Change in due to State	164,163	-
Change in deferred revenue	<u>(1,000)</u>	<u>360</u>
Net cash used by operating activities	<u>\$ (3,836,929)</u>	<u>\$ (3,693,538)</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE K - NET ASSETS RESTATEMENT

BATA has restated net assets at September 30, 2004 to reflect a change in accounting policy. A portion of BATA's tax levy is restricted for the development and provision of new services. In the prior year, the amount reported as net assets - restricted for new services was understated. Beginning in the year ended September 30, 2005, new services are first funded with State and Federal funding and subsequently with local tax revenues. BATA has consequently changed its reporting to recognize this policy retroactively to 2004.

The change in policy was implemented and shown below, by restating end of the year net assets for the year ended September 30, 2004 as follows:

	<u>Originally Reported</u>	<u>Change in Accounting Policy</u>	<u>Restated</u>
Invested in capital assets, net of related debt	\$ 3,220,143	\$ -	\$ 3,220,143
Restricted for new services	257,842	107,739	365,581
Unrestricted	<u>(533,267)</u>	<u>(107,739)</u>	<u>(641,006)</u>
	<u>\$ 2,944,718</u>	<u>\$ -</u>	<u>\$ 2,944,718</u>

NOTE L - COMMITMENTS

BATA has entered into an agreement for the construction of a new transfer site facility. Total commitments in connection with the construction of the new facility are \$965,000 as of March 8, 2006. The project will be funded by State and Federal Section 5311 Capital Contribution Grants.

SUPPLEMENTAL INFORMATION

BATA**SCHEDULE OF OPERATING REVENUES**

For the year ended September 30,

	<u>2005</u>	<u>2004</u>
Operating revenues		
Passenger fares	\$ 219,152	\$ 194,553
Special transit fees	278,508	364,728
Freight tariffs	<u>607</u>	<u>2,406</u>
Total operating revenues	<u>\$ 498,267</u>	<u>\$ 561,687</u>

BATA

SCHEDULE OF OPERATING EXPENSES

For the year ended September 30, 2005

	<u>Operations</u>	<u>Maintenance</u>	<u>General and Administrative</u>	<u>Total System</u>
Operating expenses				
Labor				
Operators' salaries and wages	\$ 1,859,911	\$ -	\$ -	\$ 1,859,911
Other salaries and wages	204,088	221,665	257,052	682,805
Fringe benefits	440,836	108,125	188,908	737,869
Other services	48,753	138,974	103,186	290,913
Materials and supplies consumed				
Fuels and lubricants	338,874	-	18	338,892
Other materials and supplies	47,356	150,047	22,870	220,273
Utilities				
Other	20,391	2,697	11,293	34,381
Telephone	-	-	30,421	30,421
Casualty and liability cost				
Premiums for public liability and property damage insurance	95,339	-	-	95,339
Other insurance	-	-	423	423
Purchased transportation	14,090	-	-	14,090
Miscellaneous expenses				
Travel and meetings	1,994	970	11,935	14,899
Other miscellaneous expense	7,816	41	23,354	31,211
Advertising and promotion media	-	-	707	707
Leases and rentals	20,148	376	23,035	43,559
Interest expense	-	-	33,696	33,696
Provision for bad debts	25,000	-	-	25,000
Depreciation	<u>285,124</u>	<u>133</u>	<u>90,210</u>	<u>375,467</u>
Total operating expenses	<u>\$ 3,409,720</u>	<u>\$ 623,028</u>	<u>\$ 797,108</u>	<u>\$ 4,829,856</u>

BATA

SCHEDULE OF OPERATING EXPENSES

For the year ended September 30, 2004

	<u>Operations</u>	<u>Maintenance</u>	<u>General and Administrative</u>	<u>Total System</u>
Operating expenses				
Labor				
Operators' salaries and wages	\$ 1,751,753	\$ -	\$ -	\$ 1,751,753
Other salaries and wages	189,673	219,530	274,435	683,638
Fringe benefits	414,000	85,617	162,451	662,068
Other services	16,675	201,588	104,083	322,346
Materials and supplies consumed				
Fuels and lubricants	241,721	-	-	241,721
Other materials and supplies	29,370	215,857	24,141	269,368
Utilities				
Other	10,066	1,931	18,433	30,430
Telephone	-	-	30,392	30,392
Casualty and liability cost				
Premiums for public liability and property damage insurance	430,987	-	-	430,987
Other insurance	-	-	24,438	24,438
Purchased transportation	31,176	-	-	31,176
Miscellaneous expenses				
Travel and meetings	-	99	19,266	19,365
Other miscellaneous expense	16,475	390	134,914	151,779
Advertising and promotion media	-	390	427	817
Leases and rentals	12,090	470	21,403	33,963
Interest expense	-	-	6,160	6,160
Depreciation	<u>229,121</u>	<u>-</u>	<u>73,409</u>	<u>302,530</u>
Total operating expenses	<u>\$ 3,373,107</u>	<u>\$ 725,872</u>	<u>\$ 893,952</u>	<u>\$ 4,992,931</u>

BATA

SCHEDULE OF NON-OPERATING REVENUES

For the year ended September 30,

	<u>2005</u>	<u>2004</u>
State of Michigan operating grants		
State operating	\$ 1,701,413	\$ 1,983,540
Project Zero	15,000	40,000
Adjustments to prior year contracts	<u>88,311</u>	<u>(95,350)</u>
Total State of Michigan operating grants	<u>1,804,724</u>	<u>1,928,190</u>
Federal operating grants		
U.S. D.O.T. grants - Section 5311		
Contract 00-0012 - operating assistance	539,380	514,057
Adjustments to prior year contracts	<u>-</u>	<u>(1,132)</u>
Total Federal operating grants	<u>539,380</u>	<u>512,925</u>
Property tax revenues	<u>1,700,537</u>	<u>1,611,522</u>
Other non-operating income		
Interest income	5,670	2,656
Commissions	40,539	41,019
Contributed services	62,255	60,442
State support TCAPS	-	10,101
Miscellaneous income	<u>32,363</u>	<u>12,278</u>
Total other non-operating income	<u>140,827</u>	<u>126,496</u>
Total non-operating revenues	<u>\$ 4,185,468</u>	<u>\$ 4,179,133</u>

BATA**SCHEDULE OF EXPENSES BY CONTRACT
AND GENERAL OPERATIONS**

For the year ended September 30, 2005

	Total Operating System	Total Non-operating System*	Total
Expenses			
Labor	\$ 2,542,716	\$ 27,184	\$ 2,569,900
Fringe benefits	737,869	7,343	745,212
Services	290,913	-	290,913
Materials and supplies	559,165	-	559,165
Utilities	64,802	1,323	66,125
Casualty and liability costs	95,762	-	95,762
Advertising and promotion	707	-	707
Leases and rentals	43,559	-	43,559
Interest expense	33,696	-	33,696
Depreciation	375,467	-	375,467
Purchased transportation	14,090	-	14,090
Provision for bad debts	25,000	-	25,000
Miscellaneous	<u>46,110</u>	<u>-</u>	<u>46,110</u>
Subtotal	4,829,856	35,850	4,865,706
Less ineligible expenses	<u>515,260</u>	<u>-</u>	<u>515,260</u>
Total eligible expenses	<u>\$ 4,314,596</u>	<u>\$ 35,850</u>	<u>\$ 4,350,446</u>

* Greyhound commission expenses and other services

BATA**SCHEDULE OF EXPENSES BY CONTRACT
AND GENERAL OPERATIONS**

For the year ended September 30, 2004

	Total Operating System	Total Non-operating System*	Total
Expenses			
Labor	\$ 2,435,391	\$ 28,780	\$ 2,464,171
Fringe benefits	662,068	7,140	669,208
Services	322,346	10,101	332,447
Materials and supplies	511,089	-	511,089
Utilities	60,822	1,241	62,063
Casualty and liability costs	455,425	-	455,425
Advertising and promotion	817	-	817
Leases and rentals	33,963	-	33,963
Interest expense	6,160	-	6,160
Depreciation	302,530	-	302,530
Purchased transportation	31,176	-	31,176
Miscellaneous	<u>171,144</u>	<u>-</u>	<u>171,144</u>
Subtotal	4,992,931	47,262	5,040,193
Less ineligible expenses	<u>343,200</u>	<u>-</u>	<u>343,200</u>
Total expenses	<u>\$ 4,649,731</u>	<u>\$ 47,262</u>	<u>\$ 4,696,993</u>

* Greyhound commission expenses

BATA

SCHEDULE OF NET ELIGIBLE COST COMPUTATIONS
OF GENERAL OPERATIONS

For the year ended September 30, 2005

	Contract Number 02-0012	State Operating Assistance
Expenses		
Labor	\$ 2,569,900	\$ 2,569,900
Fringe benefits	745,212	745,212
Services	290,913	290,913
Materials and supplies	559,165	559,165
Utilities	66,125	66,125
Casualty and liability costs	95,762	95,762
Advertising and promotion	707	707
Leases and rentals	43,559	43,559
Interest expense	33,696	33,696
Depreciation	375,467	375,467
Purchased transportation	14,090	14,090
Provision for bad debts	25,000	25,000
Miscellaneous	<u>46,110</u>	<u>46,110</u>
Total expenses	<u>4,865,706</u>	<u>4,865,706</u>
Less ineligible expenses		
Interest expense	33,696	33,696
Depreciation	359,383	359,383
Dues	397	397
Project Zero/Job Access	20,000	20,000
Regional transportation	799	799
Audit fees	13,730	-
Contributed services	62,255	-
Provision for bad debts	<u>25,000</u>	<u>25,000</u>
Total ineligible expenses	<u>515,260</u>	<u>439,275</u>
Less incidental revenue	<u>607</u>	<u>-</u>
Net eligible expenses	<u>\$ 4,349,839</u>	<u>\$ 4,426,431</u>
Maximum Section 5311 reimbursement (12.4%)	<u>\$ 539,380</u>	
Maximum for State operating assistance 38.44% of eligible costs		<u>\$ 1,701,413</u>

BATA

SCHEDULE OF NET ELIGIBLE COST COMPUTATIONS
OF GENERAL OPERATIONS

For the year ended September 30, 2004

	Contract Number 02-0012	State Operating Assistance
Expenses		
Labor	\$ 2,464,171	\$ 2,464,171
Fringe benefits	669,208	669,208
Services	332,447	332,447
Materials and supplies	511,089	511,089
Utilities	62,063	62,063
Casualty and liability costs	455,425	455,425
Advertising and promotion	817	817
Leases and rentals	33,963	33,963
Interest expense	6,160	6,160
Depreciation	302,530	302,530
Purchased transportation	31,176	31,176
Miscellaneous	<u>171,144</u>	<u>171,144</u>
Total expenses	<u>5,040,193</u>	<u>5,040,193</u>
Less ineligible expenses		
Interest expense	6,160	6,160
Depreciation	286,579	286,579
Dues	360	360
Project Zero/Job Access	40,000	40,000
Services	<u>10,101</u>	<u>10,101</u>
Total ineligible expenses	<u>343,200</u>	<u>343,200</u>
Less incidental revenue	<u>2,406</u>	<u>-</u>
Net eligible expenses	<u>\$ 4,694,587</u>	<u>\$ 4,696,993</u>
Maximum Section 5311 reimbursement (10.95%)	<u>\$ 514,057</u>	
Maximum for State operating assistance 42.23% of eligible costs		<u>\$ 1,983,540</u>

BATA

SCHEDULE OF DETAILS OF INELIGIBLE EXPENSES

For the year ended September 30,

	<u>2005</u>	<u>2004</u>
Interest expense	\$ 33,696	\$ 6,160
Depreciation		
Depreciation accrued on assets purchased with grant funds are ineligible	359,383	286,579
MPTA dues		
A portion of MPTA dues is ineligible and, accordingly, has been excluded from eligible expenses. For fiscal years 2005 and 2004, 6.9% and 7.4%, respectively, has been determined to be ineligible	397	360
Project Zero	20,000	40,000
Services	-	10,101
Contributed Services	62,255	-
Regional Transportation Expenses	799	-
Audit fees	13,730	-
Provision for bad debts	<u>25,000</u>	<u>-</u>
Total ineligible expenses	<u>\$ 515,260</u>	<u>\$ 343,200</u>

BATA**STATEMENT OF CAPITAL CONTRIBUTIONS - GRANTS**

For the year ended September 30,

	<u>2005</u>	<u>2004</u>
Grants received		
Contract 1999-0404	\$ -	\$ 2,325
Contract 01-0899	3,069	34,857
Contract 02-0012/Z3	-	40,298
Contract 02-0012/Z5	47,513	57,487
Contract 02-0012/Z7	-	297,732
Contract 02-0012/Z11	180,742	331,146
Contract 02-0012/Z12	37,500	-
Contract 02-0012/Z16	13,860	-
Contract 02-0012/Z17	<u>58,512</u>	<u>1,293,190</u>
Total capital contributions - grants	<u>\$ 341,196</u>	<u>\$ 2,057,035</u>

BATA**SCHEDULE OF VEHICLE HOURS AND PASSENGERS**

For the year ended September 30, 2005

	Vehicle Hours	Passengers			Total Passengers
		Regular Passengers	Senior Passengers	Handicapped Passengers	
First quarter	31,371	35,192	17,044	47,151	99,387
Second quarter	30,205	37,912	17,117	49,849	104,878
Third quarter	30,838	30,002	19,231	50,340	99,573
Fourth quarter	<u>33,316</u>	<u>31,183</u>	<u>20,517</u>	<u>51,851</u>	<u>103,551</u>
Total	<u>125,730</u>	<u>134,289</u>	<u>73,909</u>	<u>199,191</u>	<u>407,389</u>

SCHEDULE OF VEHICLE HOURS AND PASSENGERS

For the year ended September 30, 2004

	Vehicle Hours	Passengers			Total Passengers
		Regular Passengers	Senior Passengers	Handicapped Passengers	
First quarter	28,942	36,642	15,925	42,080	94,647
Second quarter	31,587	42,128	16,824	42,709	101,661
Third quarter	31,700	33,917	18,621	47,006	99,544
Fourth quarter	<u>33,196</u>	<u>32,016</u>	<u>19,159</u>	<u>49,796</u>	<u>100,971</u>
Total	<u>125,425</u>	<u>144,703</u>	<u>70,529</u>	<u>181,591</u>	<u>396,823</u>

BATA

MILEAGE DATA

For the year ended September 30, 2005

	<u>Public Transportation Mileage</u>
Demand-response	
First quarter	426,215
Second quarter	414,414
Third quarter	415,255
Fourth quarter	<u>456,174</u>
Total demand-response	<u><u>1,712,058</u></u>

MILEAGE DATA

For the year ended September 30, 2004

	<u>Public Transportation Mileage</u>
Demand-response	
First quarter	376,612
Second quarter	406,359
Third quarter	422,291
Fourth quarter	<u>442,178</u>
Total demand-response	<u><u>1,647,440</u></u>

FEDERAL AND STATE PROGRAM REPORTS

BATA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

September 30, 2005

Federal Grantor/ Pass Through Grantor Program Title	Pass-Through Grantor's Number	Federal CFDA Number	Accrued (Deferred) Revenue 09/30/04	Prior Year Expenditures	Grant Expenditures	Current Year Receipts	BATA and Audit Adjustment	Accrued (Deferred) Revenues 09/30/05
United States Department of Transportation Passed through Michigan Department of Transportation Section 5311 Operating Assistance	20-0012/Z7 02-0012/Z9 02-0012/Z14 02-0012/Z19 01-0899 02-0012/Z3 02-0012/Z12 02-0012/Z16 02-0012/Z5 02-0012/Z11 02-0012/Z17	20.509 20.509 20.509 20.509 20.509 20.509 20.509 20.509 20.509 20.509 20.509	\$ (218) 12,698 24,051 - 23,038 14,180 - - - - - 1,034,552	\$ - - 514,057 - 27,886 32,238 - - - - 1,034,552	\$ - - - 539,380 2,455 - 30,000 11,088 38,010 144,594 46,809	\$ - - 6,045 481,980 23,038 14,180 30,000 11,088 38,010 129,397 1,075,234	\$ - - - - - - - - - - - -	\$ (218) 12,698 18,006 57,400 2,455 - - - - 15,197 6,127 -
Total Federal financial assistance			\$ 1,108,301	\$ 1,608,733	\$ 812,336	\$ 1,808,972	\$ -	\$ 111,665
Operating Assistance Act 51 99-00 Act 51 00-01 Act 51 02-03 Act 51 03-04 Act 51 04-05 Section 5311 Section 5311 Section 5311 Section 5311 Section 5313 Section 5309 Section 5309 Project Zero - Fiscal Year 2004 Project Zero - Fiscal Year 2005	01-0899 02-0012/Z3 02-0012/Z12 02-0012/Z16 02-0012/Z5 02-0012/Z11 02-0012/Z17 02-0012 02-0012	N/A N/A N/A N/A N/A N/A N/A N/A N/A	\$ - - 2,925 31,196 - 5,759 3,545 - - - - 258,638 7,500 -	\$ - - - - - - - - - - - - - -	\$ - - - - - 614 1,701,413 - 7,500 2,772 9,503 36,148 11,703 15,000	\$ - - - - - 1,835,698 5,759 3,545 7,500 2,772 9,503 32,349 268,809 7,500 15,000	\$ 53,139 37,875 - 27,175 (29,878) - - - - - - - - - - 88,311	\$ 53,139 37,875 2,925 58,371 (164,163) 614 - - - - 3,799 1,532 - - -
Total State financial assistance			\$ 309,563	\$ -	\$ 1,784,653	\$ 2,188,435	\$ -	\$ (5,908)

BATA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

September 30, 2005

- Note 1** The Schedule of Expenditures of Federal and State Awards is prepared on the accrual basis of accounting
- Note 2** Management has reported that expenditures in this Schedule of Expenditures of Federal and State Awards are equal to those amounts reported in the annual or final cost reports. Unallowed differences, if any, have been disclosed to the auditor.
- Note 3** The financial reports, including claims for advances and reimbursements and amounts claimed or used for matching are timely, complete, accurate and contain information that is supported by the books and records from which the general purpose financial statements have been prepared. Grant receipts are reported on the Schedule of Expenditures of Federal and State Awards, as passed through the Michigan Department of Transportation.
- Note 4** A reconciliation of expenditures on the Schedule of Expenditures of Federal and State Awards sources reported on the financial statements are as follows:

Federal expenditures per Schedule of Expenditures of Federal and State Awards	\$ 812,336
Capital contracts reported as invested in fixed assets	<u>(272,956)</u>
 Federal sources per general purpose financial statements	 <u>\$ 539,380</u>



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Authority Board
BATA

Compliance

We have audited the compliance of **BATA** with the types of compliance requirements described in the *U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended September 30, 2005. BATA's major Federal programs are identified in the summary of auditors results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of BATA's management. Our responsibility is to express an opinion on BATA's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about BATA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on BATA's compliance with those requirements.

In our opinion, BATA complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended September 30, 2005.

Internal Control Over Compliance

The management of BATA is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered BATA's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants, that would be material in relation to a major Federal program being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider necessary to be material weaknesses.

This report is intended solely for the information and use of the Board members, management, Michigan Department of Transportation, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dennis, Gartland & Niergarth

December 21, 2005

BATA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

September 30, 2005

Current Year

Section 1 - Summary of Auditor's Results

1. The audit report on BATA's financial statements was unqualified.
2. There were no reportable conditions in internal control reported as a result of the audit of the general purpose financial statements.
3. There were no compliance findings disclosed that were material to BATA's financial statements.
4. There were no reportable conditions disclosed that were related to a major program.
5. The report over compliance for major programs was unqualified.
6. There were no audit findings that are required to be reported.
7. BATA's major program was Section 5311 (CFDA No. 20.509).
8. The dollar threshold for distinguishing between Type A and Type B programs was \$300,000.

Section 2 - Findings in Accordance with Generally Accepted Government Auditing Standards.

No findings.

Section 3 - Current Year Findings and Questioned Costs in Accordance with OMB Circular A-133.

No findings.



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Authority Board
BATA

We have audited the financial statements of **BATA** as of and for the years ended September 30, 2005 and 2004, and have issued our report thereon dated December 21, 2005. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether BATA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered BATA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the BATA Board, management, Michigan Department of Transportation, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dennis, Gartland & Niergarth

December 21, 2005
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AUDIT-RELATED COMMUNICATIONS

To the Authority Board
BATA

We have audited the financial statements of BATA for the year ended September 30, 2005, and have issued our report thereon dated December 21, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 21, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of BATA. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

However, during our audit, we became aware of a couple matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated December 21, 2005 on the financial statements of BATA.

Fraud Prevention and Internal Controls

Internal controls are the policies and procedures you put in place to reduce the potential for undetected mistakes or fraud. Like most small organizations, your internal control system may have some inherent weaknesses due to the absence of an adequate segregation of incompatible duties (one or a few people do everything). Everybody can make mistakes and most frauds are perpetrated by people held in a position of trust so this is an issue regardless of the qualities of the people working for you.

Internal controls are designed both to protect you from corrupt employees, customers, vendors and others and to protect honest employees from innocent mistakes and misplaced suspicions. There typically are opportunities to reduce the risk of undetected mistakes or fraud through the implementation of a few relatively easy internal control procedures. We would be happy to work with you to identify your greatest risk exposures and offer suggestions for ways to reduce that risk with simple cost-effective procedures.

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However, during our engagement we did identify the following internal control matters for your consideration:

A substantial amount of fare box revenues is received in cash. Although the total amount of cash received annually is insignificant when compared to total operations, proper controls should be in place to ensure the safeguarding and prevent the misappropriation of assets. We recommend management review the cash handling procedures specifically related to fare box receipts.

We recommend the Authority's Board review and approve the executive directors expense reports.

During the course of the audit, we noted approximately \$50,000 of fiscal year 2005 cash receipts which were deposited in the bank but that were unapplied to the related receivable. As a result, the aged accounts receivable is inherently misstated. We recommend that all receipts be matched up to the corresponding receivable when received.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by BATA are described in Note A to the financial statements. Except as noted below, no new accounting policies were adopted and the application of existing policies was not changed during 2005. Transactions entered into by BATA during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus are noted below.

Restricted Net Assets

A portion's of BATA's tax levy is restricted for the development and provision of new services. Accordingly, a portion of net assets are restricted, representing unspent tax monies relative to new services. In the prior year the amount reported as net assets restricted for new services was understated. Beginning in the year ended September 30, 2005, new services are first funded with state and federal funding and subsequently with local tax revenues. BATA consequently changed its reporting to recognize this policy retro-actively to 2004.

Allowance for Bad Debts

Account receivables are reported in the financial statements at net realizable value. Net realizable value is equal to the gross amount of receivables less an estimated allowance for uncollectible accounts. The allowance method recognizes an estimate of uncollectible accounts each period, even though the specific individual accounts that will not be collected cannot be identified at that time. During the year ended September 30, 2005, we assisted management in establishing an allowance in the amount of \$25,000 based on an analysis of gross annual services. We recommend management revalue the estimate according to FAS-5 (*Accounting for Contingencies*) as part of year-end closing.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the valuation of receivables and related revenues.

We have evaluated management's estimates of amount due to/from the State and Federal grants as compared to the preliminary reimbursement rate for urbanized areas under 100,000 population as a basis for concluding about reasonableness of those estimates. Also, we have evaluated the estimates for uncollectible receivables through an analysis of gross annual services as a basis for concluding about the reasonableness of those estimates.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the BATA's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the BATA, either individually or in the aggregate, indicate matters that could have a significant effect on the BATA's financial reporting process.

Unrecorded Adjustments

An allowance account for bad debts was established in the amount of \$25,000. Our analysis of account receivables suggests the year-end balance could be overstated by \$6,726.

Recorded Adjustments

We posted several closing entries proposed by management.

We proposed an entry to reassign activity between current year revenues and adjustments to prior years.

We proposed entries to reassign State and Federal portion of fundings.

We proposed an entry to adjust State and Federal formula funding (year-end receivable).

We proposed an entry to post activity for unapplied receivable and employer retirement clearing account.

We proposed an entry to capitalize expenditures related to the downtown transfer site.

We proposed an entry to establish an allowance for uncollectible receivables.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the BATA's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Other Items

Cash Flow/Net Assets

Tax monies are collected by the various municipalities December through February each year. As a result, it is necessary for BATA to borrow money on a short-term basis to cover its expenses. We recommend a 3 - 5 year plan be implemented whereby the need for borrowing is eliminated or reduced.

BATA's net assets are approximately \$3.1 million. However, this entire amount is invested in fixed assets. In other words, BATA does not have much liquidity in the event unforeseen circumstances arise. The 3 - 5 year plan referred to above should also address the liquidity of BATA.

Conflict of Interest Policy

Many organizations adopt a conflict of interest policy whereby in the event an officer or director of the organization has any direct or indirect interest in, or relationship with, any individual or organization which proposes to enter into any transaction with the organization, such person shall give notice of such interest or relationship. The individual would also refrain from discussing or voting on the particular transaction in which he has an interest to affect a decision to participate or not participate in such transaction.

Audit Time Table

It is our intent to be as efficient as possible in order to maintain reasonable costs associated with your annual audit while providing both timely and quality work. As part of our engagement, we request certain information be made available both prior to and during the audit. There is potential to finalize the audit more timely if requested items are completed and organized prior to the scheduled fieldwork. However, if the current time table adequately meets the Board's financial reporting needs, we may suggest pushing back our scheduled fieldwork dates in future years to allow adequate time for year-end closing and preparing for the audit.

This information is intended solely for the use of and management of BATA and is not intended to be and should not be used by anyone other than these specified parties.

Dennis, Gartland & Niergarth

December 21, 2005